MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

T3, 2017/2018

BCF7044 – CORPORATE FINANCE

(MBA Full Time)

2 JUNE 2018
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of **FOUR (4)** pages including cover page with **5 Questions** only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please print all your answers in the **Answer Booklet** provided.

QUESTION 1

a) Corporate financial planning establishes guidelines for future. Explain three (3) basic elements of a firm's financial policy leading to meaningful financial planning.
(6 marks)

b) Rashid Co. has identified an investment project with the following cash flows:

Year 1: Cash Flow RM 1,200
Year 2: Cash Flow RM 730
Year 3: Cash Flow RM 965
Year 4: Cash Flow RM 1,590

If the discount rate is 10 percent,

i) What is the present value of these cash flows? (5 marks)
ii) What is the present value of these cash flows at 18 percent? (5 marks)

c) The following data has been extracted from Mino Trading Co. (Figures in RM)

	Beginning Balance	Ending Balance
Inventory	8,413	10,158
Accounts Receivables	5,108	5,439
Accounts Payable	6,927	7,625
Other Information:		
Net Sales RM 67,312		
Cost of Goods Sold RM 52,827		
Operating Cycle 92.75 days		

Calculate Cash cycles (in days). (4 marks)

(Total: 20 marks)

QUESTION 2

The Director of Ahmad Canned Fruits, Co. (ACFC), has projected the cash flow of projects A, B and C as follows: (Figures in RM)

YEAR	Project A	Project B	Project C
Year 0	-100,000	-200,000	-100,000
Year 1	70,000	130,000	75,000
Year 2	70,000	130,000	60,000

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Suppose the relevant discount rate is 12 percent a year.

a) Compute the profitability index for each of the three projects. (6 marks)

b) Compute the NPV for each of the three projects. (9 marks)

c) Suppose these three projects are independent. Which project(s) should ACFC accept based on the NPV rule? (2 marks)

d) Suppose these three projects are mutually exclusive. Which project(s) should ACFC accept based on the NPV rule? (2 marks)

e) Suppose ACFC's budget for these projects is RM300,000. The projects are not divisible. Which project(s) should ACFC accept?

(1 mark)

(Total: 20 marks)

QUESTION 3

a) A substantial percentage of the companies listed on the Bursa Malaysia do not pay dividends, but investors are nonetheless willing to buy shares in them. How is this possible? (4 marks)

b) The Shanaz Wholesale Co. just paid a dividend of RM1.40 per share on its stock. The dividends are expected to grow at a constant rate of 6 percent per year indefinitely. If investors require a 12 percent return on the Shanaz Wholesale Co. stock,
   i) What is the current price? (3 marks)
   ii) What will the price be in third year? (3 marks)

c) Suppose a stock had an initial price of RM83 per share, paid a dividend of RM1.40 per share during the year, and had an ending share price of RM91.
   i) Compute the percentage total return. (2 marks)
   ii) What was the dividend yield? (2 marks)
   iii) What was the capital gains yield? (2 marks)

d) A stock has had returns of -4.91 percent, 21.67 percent, 22.57 percent, 6.19 percent, and 31.85 percent over the past five years, respectively. What was the holding period return for the stock?

(4 marks)

(Total: 20 marks)

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QUESTION 4

a) Discuss factors that determine the beta of a stock? . (4 marks)

b) You own a portfolio that is 50 percent invested in Stock *X*, 30 percent in Stock *Y*, and 20 percent in Stock *Z*. The expected returns on these three stocks are 11 percent, 17 percent and 14 percent, respectively. What is the expected return on the portfolio? (4 marks)

c) The Dirham Corporation's common stock has a beta of 1.3. If the risk-free rate is 4.5 percent and the expected return on the market is 12 percent, what is Dirham's cost of equity capital? (4 marks)

d) Daulat Corporation has a target debt–equity ratio of 0.80. Its WACC is 10.5 percent and the tax rate is 35 percent.

i. If Daulat Corporation's cost of equity is 15 percent, what is its pretax cost of debt? (4 marks)

ii. If instead you know that the aftertax cost of debt is 6.4 percent, what is the cost of equity? (4 marks)

(Total: 20 marks)

QUESTION 5

Afif Warda Berhad is comparing two different capital structures, an all-equity plan (Plan I) and a levered plan (Plan II). Under Plan I, the company would have 150,000 shares of stock outstanding. Under Plan II, there would be 60,000 shares of stock outstanding and RM1.5 million in debt outstanding. The interest rate on the debt is 10 percent and there are no taxes.

a) If EBIT is RM200,000, which plan will result in the higher EPS? (6 marks)

b) If EBIT is RM700,000, which plan will result in the higher EPS? (6 marks)

c) What is the Breakeven EBIT? (2 marks)

d) Apply MM Proposition I to find the price per share of equity under each of the two proposed plans. What is the value of the firm? (6 marks)

(Total: 20 marks)

End of Paper